

FDIC State Profile

Fall 2004

North Dakota

The North Dakota economy continued to gain strength in the second quarter.

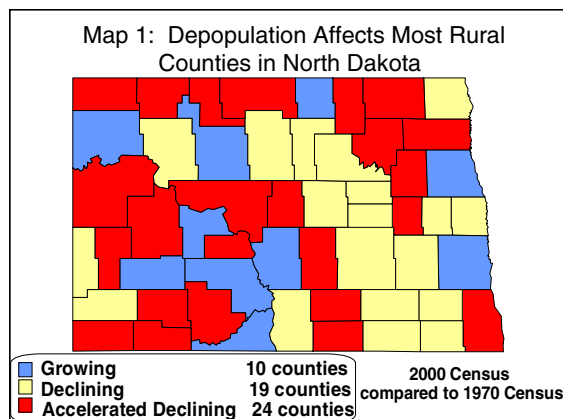
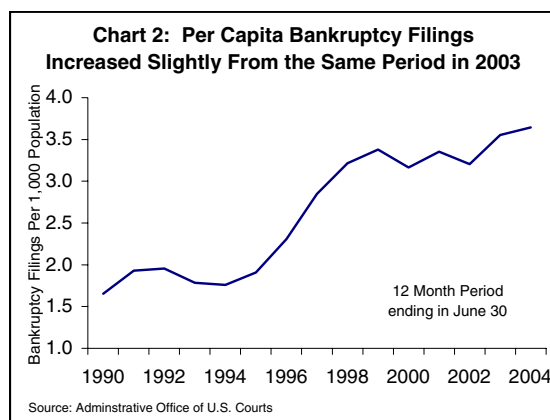
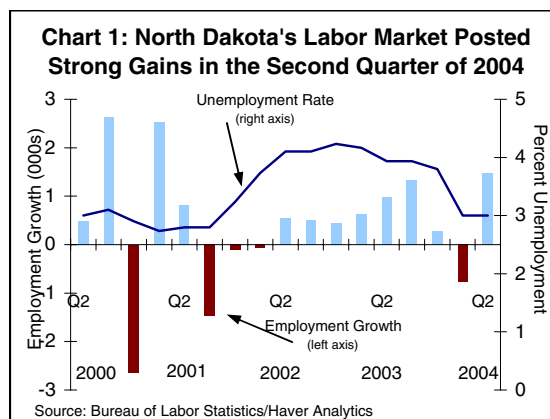
- North Dakota's labor market added 1,500 jobs in the second quarter, with the largest gain of 500 jobs from the manufacturing sector (See Chart 1).
- The unemployment rate was unchanged from the previous quarter at 3.0 percent, and remains one of the lowest in the United States.

Bankruptcy filings continued to increase in the first half of 2004.

- Per-capita bankruptcy filings for the year ending June 30, 2004, have risen steadily for the third consecutive year and now stand at the highest level in at least a decade (See Chart 2).
- In the second quarter of 2004, first-time filings increased 4.5 percent from the previous quarter, but declined slightly from the same period the prior year.
- Unusually, bankruptcy increases are coming at a time of economic strength in the state, though filings remain below that of the nation.

Depopulation in rural areas is a continuing challenge.

- Population levels have declined in 43 of North Dakota's 53 counties since 1970; population in 24 of those counties declined at an increasing rate during the 1990s (See Map 1).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural to metropolitan areas seeking better employment opportunities.
- Counties that are losing population more rapidly could lose economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



State Profile

Commercial banks continue to experience growth in business lending.

- Unlike the nation's largest institutions, North Dakota commercial banks continued to experience growth in their commercial lending portfolios over the past several years (See Chart 3).
- However, the growth rate decelerated substantially because of the downturn in the state's business sector, especially in manufacturing.
- As North Dakota's economy continues to improve, growth in commercial and industrial lending has upticked recently, similar to the trend in the nation's largest commercial banks.

Securities portfolios experienced net depreciation in the second quarter.

- Commercial bank available-for-sale securities (AFS) portfolios registered their first quarter of net depreciation (negative 0.56) in 15 quarters as the Federal Reserve began tightening monetary policy for the first time since June 2000 (See Chart 4). Current unrealized depreciation represents 0.81 percent of capital versus 5.26 percent in June 2000.
- The value of securities portfolios may be more volatile than recent history as commercial banks invested heavily in mortgage-backed securities (MBS) over the past few years. MBS typically carry greater market sensitivity than U.S. Treasury and agency securities.
- MBS have represented between 39.2 percent and 43.6 percent of AFS over the past two years, well above the 18.2 to 27.0 percent range in the 24 months immediately preceding second quarter 1999, the beginning of a six-quarter net depreciation period.

North Dakota continues to experience slowly declining core funding.

- Community institution core funding continues to erode at a gradual pace from 77.4 percent of total assets in 1997 to 74.7 percent in 2004.
- Unlike the nation's largest institutions, North Dakota's community institutions did not experience the large influx of funds from investors that sought shelter from a weak economy and declining stock market and later outflow as economic and market fundamentals improved. (See Chart 5).
- Rural North Dakota's growing elderly population and net out-migration will continue to pressure core funding in the long-term. As elderly depositors pass away, their

deposits often follow their heirs who typically have migrated from rural areas to metropolitan areas.

Chart 3: Commercial Loan Growth Accelerates in the First Half of 2004

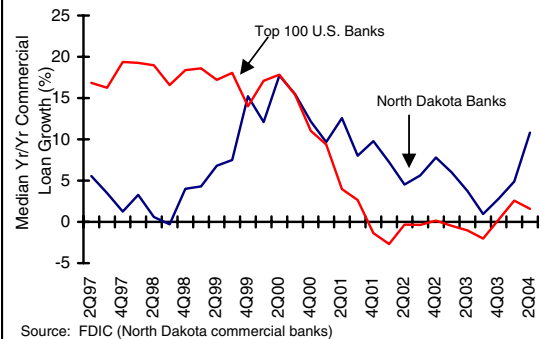


Chart 4: Available-for-sale Securities Portfolios Showed Net Depreciation in the Second Quarter

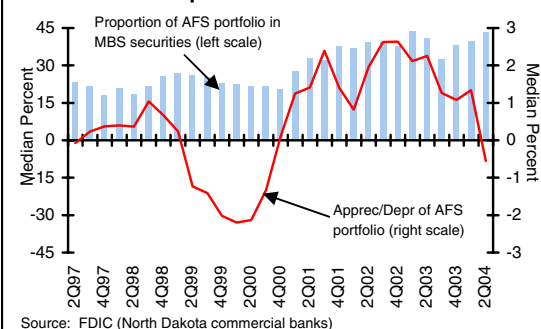
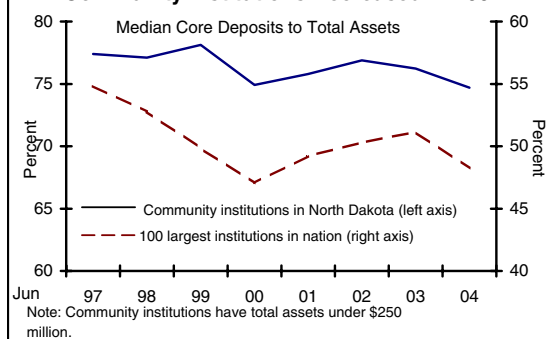


Chart 5: Core Funding in North Dakota's Community Institutions Decreased in 2004



North Dakota at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	103	107	107	110	115
Total Assets (in thousands)	19,832,201	19,962,397	19,126,496	18,802,567	13,198,921
New Institutions (# < 3 years)	0	0	1	1	2
New Institutions (# < 9 years)	2	2	2	3	3
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.47	9.22	9.23	9.60	9.84
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	1.85%	2.49%	2.34%	2.40%	2.36%
Past-Due and Nonaccrual >= 5%	6	19	20	16	17
ALLL/Total Loans (median %)	1.49%	1.59%	1.67%	1.62%	1.59%
ALLL/Noncurrent Loans (median multiple)	1.84	1.65	1.43	1.60	1.68
Net Loan Losses/Loans (aggregate)	0.39%	0.55%	0.56%	0.83%	1.00%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	0	1	0	0	5
Percent Unprofitable	0.00%	0.93%	0.00%	0.00%	4.35%
Return on Assets (median %)	1.17	1.14	1.17	1.17	1.29
25th Percentile	0.85	0.85	0.89	0.80	1.02
Net Interest Margin (median %)	4.08%	4.12%	4.27%	4.14%	4.40%
Yield on Earning Assets (median)	5.53%	6.00%	6.75%	8.14%	8.13%
Cost of Funding Earning Assets (median)	1.42%	1.85%	2.53%	4.04%	3.76%
Provisions to Avg. Assets (median)	0.08%	0.12%	0.12%	0.11%	0.11%
Noninterest Income to Avg. Assets (median)	0.49%	0.47%	0.48%	0.50%	0.43%
Overhead to Avg. Assets (median)	2.77%	2.76%	2.74%	2.71%	2.74%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	81.43%	78.48%	77.67%	78.20%	77.55%
Loans to Assets (median %)	65.59%	65.77%	65.25%	65.61%	61.78%
Brokered Deposits (# of Institutions)	20	21	16	17	19
Bro. Deps./Assets (median for above inst.)	2.25%	1.76%	1.62%	1.49%	2.40%
Noncore Funding to Assets (median)	15.26%	12.69%	12.49%	13.67%	13.93%
Core Funding to Assets (median)	73.51%	75.56%	75.34%	74.95%	74.31%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	82	84	85	88	91
National	13	15	15	15	17
State Member	5	5	4	4	3
S&L	0	0	0	0	0
Savings Bank	3	3	3	3	4
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	84	6,391,827	81.55%	32.23%	
Fargo-Moorhead ND-MN	11	11,211,107	10.68%	56.53%	
Bismarck ND	6	1,004,251	5.83%	5.06%	
Grand Forks ND-MN	2	1,225,016	1.94%	6.18%	